CHAPTER THREE

THE THREE ERAS OF TAXATION IN NIGERIA

General Historical Overview of Taxation

Taxes are as old as the history of organised human society. During the reign of the Pharaohs in Egypt tax collectors were called *scribes* and taxes were collected on various items including cooking oil.[1] In the ancient Greek city of Athens, taxes were especially important in times of war. The tax imposed during times of war was known as *eisphora* and no one was exempted from this tax. After the war, when additional resources were gained, the *eisphora* tax was refunded to the taxpayers. Aside this tax, the Athenians imposed a monthly poll tax called *metoikion* on foreigners.[2]

In ancient Rome, the earliest taxes were called *portoria.* These were custom duties on imports and exports. During the reign of Caesar Augustus, several tax reforms were carried out by the Roman government. These included replacing the *publicani* (tax collectors) with city councils as tax collectors, imposing a 5% inheritance tax to provide retirement funds for the military and a 1% sales tax on every item except sale of slaves which attracted a 4% tax rate.[3]

In England the first known tax assessment was during the Roman occupation which began in the year 43 AD with the invasion of Britain by the Roman Emperor, Claudius I and ended about 410 AD.[4] After the collapse of the Roman Empire, the Saxon Kings imposed various types of taxes such as *danegeld* (land tax), *scutage* (a tax paid in lieu of serving in the army) *carucate* (another land tax that replaced *danegeld* and was collected only on plowed land).[5] Most of these taxes were either replaced or modified following the Norman conquest of England in 1066. The first law on income tax was passed by the English Parliament in 1404 and the first deduction of income tax at source was done in 1512.[6]

The point has been made in the preceeding chapter that the various pre-colonial Nigerian empires practiced various forms of taxation. In the northern territories, these included the *zakat* which was charitable tax levied on Muslims for religious and educational purposes, the *kurdin kasa* which was an agricultural tax and the *jangali* which was a cattle tax levied on livestock.[7] In the Yoruba states of southwestern Nigeria, pre-colonial taxes included the *owo-onibode*, a border fee similar to customs duty that was imposed on cross border trade; the tribute tax and capitation tax that were administered by the *Bales* (ward heads) on behalf of the *Obas,* just to mention a few.[8] The Benin Kingdom also had an advance system of taxation which the British found upon their arrival at the close of the 19th century. In 1897, for example, the British Consul-General at Calabar directed the Political Resident in Benin to the effect that in assessing the people for tax purposes, the Resident should take into consideration the basis of assessment which the Edo people were formerly called upon to pay to the *Oba* of Benin, and ensure that the assessment by the Resident was carried out with more fairness.[9]

Following the expansion of the British Empire and the establishment of colonies abroad, Britain either introduced taxation into her colonies or modified the existing systems to suit British imperial interests. In the American colonies for example, colonists were paying taxes under the Molasses Act which was amended as the Sugar Act in 1764 to include import duties on sugar, wine and other commodities. These were subsequently followed by the short-lived Stamp Act 1765 which was the first case of direct taxation of the American colonies. In the case of Nigeria, the British introduced direct taxes first in the north in 1906, in the west in 1918 and the east in 1927.[10] The introduction of taxation in eastern Nigeria sparked off rebellions reminiscent of the Stamp Act rebellion in the American colonies, prompting the colonial government to set up a number of Commissions to look into the revolts.[11]

This chapter discusses the evolution of taxation through the three major stages of Nigeria's history: pre-colonial; colonial and post colonial.

TAXATION IN THE PRE-COLONIAL ERA

The Hausa City States

The Hausa people are a powerful cultural and political group in Nigeria. One tradition holds that Hausaland was founded by *Abuyazigu*, sometimes also called *Bayajida* who was said to have fled from Baghdad following a quarrel with his father.[12] Beginning from the eleventh century, seven independent Hausa city states were founded in Northern Nigeria namely, Biram, Daura, Gobir, Kano, Katsina, Zaria and Rano. These seven city states developed as strong trading centres; with economies based on intensive farming, cattle rearing, craft making and later slave trading. Kano and Katsina competed for the lucrative trans-Saharan trade with Kanem Borno, and for a time had to pay tribute to it. The Kano Chronicle relates that the first king of Kano was *Bagauda* (999-1063) and that the city walls for which Kano is so famous were started in the reign of *Bagauda's* son, *Gayamusa*. The walls took a very long time to build and they were not completed until the reign of the fifth king of Kano, Yusa 1136-94.[13] As at 1000 AD, Kano had already developed into a strong and prosperous trading centre, as a result of the trans-Saharan trade. By the 15th century Kano, Zaria, Katsina and Sokoto had grown into great centres of commerce.[14]

Various forms of taxes were developed through this period of rapid economic developments. These included the *gandu,* an agricultural tax levied on one - eighth of every farmers crop which was introduced during the reign of *Naguji* who succeeded *Yusa* as the sixth king of Kano;[15] the *zakkat*, a type of taxation prescribed by the Holy Koran and levied on Moslems for charitable, religious and educational purposes; the *kudin-kasa* or land tax; the *Jangali* or cattle tax. In addition there was a plantation tax called *shukka-shukka* and *kudin sarauta*, an accession duty paid by every chief or holder of an office upon appointment. Finally, there was *gado*, a death duty on a deceased's estate paid to the Emir when there was no recognized or proven heir.

The Kanem Borno Empire

The Kanem kingdom emerged east of Lake Chad (in present South-western Chad) by around the 9th century AD. Kanem profited from trade ties with North Africa and the Nile Valley, from which it also received Islam. The *Saifawas*, the Kanem's ruling dynasty, periodically enlarge their holdings and territories by conquest and marriage into the ruling families of vassal states. The empire, however, failed to sustain a lasting peace such that between the 12th and 14th centuries, the *Saifawas* were forced to move across Lake Chad into Borno, in present day Northeastern Nigeria.[16] There, the Kanem intermarried with the native peoples, and the new group became known as the Kanuri. The Kanuri State which first centered in Kanem and later moved to Borno, is known by historians as the Kanem-Borno Empire.

The pre-Kanuri inhabitants of Borno were sedentary agriculturalists who supplemented their diet by hunting, fishing and gathering. They practiced agriculture but they contained a considerable nomadic element. Their economic way of life was filled by new pastoral groups-

fulani from the west and north-west, *Tubu* from the north and north east and later *Shuwa* Arabs from the east.[17] The camel-owning pastoralists played an important military and economic role in the kingdom providing transport for raid and trade. The fertile soil left by drying lake brought about the immigration of desert dwellers to make their fortune. The desert dwellers were the *Kanuri*, *Teda*, and the *Zaghawa*. Kanem-Borno was ruled by different rulers who fought and conquered kingdoms to expand their territory. Some of these rulers were *Sayf Dbi Yazan* (1085-97), *Dunama Dibbalemi* 1 and 2, *Ali Ghaji* and *Idris Alooma*. The vast area of Borno over which the empires held its sway is today divided between the Republic of Niger, Chad, Cameroon and Nigeria. Its boundaries coincide to a considerable extent with the boundaries of the Chad basin.

In the 19th century, irrigated farms worked by slaves were farmed along the river banks to provide the courtiers of *Kukawa* (Chadians) with fruits and vegetables. Just as trade must have played a vital role in the growth of the state, so the powerful unified state in turn attracted trade. Agricultural products were generally consumed locally. But trade in grains and dried fish was carried on, supplying the needs of the larger cities and of the people of the desert fringe.[18] Whereas under the *Saifawa dynasty*, succession to fiefs was hereditary, under the *Kanemi* dynasty, the *Chima* (chiefs) held their fiefs simply at the pleasure of the reigning *Shehu*, and such holdings were liable to sequestration (in whole or part) and re-allocation on the slightest pretexts.[19]

By 1830, in addition to trade, an impressive tax system had developed in Kanem Borno, providing a steady source of income to the emirate. Basic to the many taxes and dues in Borno system of taxation was the Islamic *Zakkat*, which in Borno was known as *Sada'a*. The *sada'a*, as an income tax was obligatory on all Muslims. The collection of the *sada'a* was restricted to *Zahir* possessions (i.e. visible articles) and more specifically to farm produce; so much so that it degenerated to nothing more than a grain tax.[20] Every state that was conquered had a resident appointed by the *Mai* (ruler) who made sure they paid their tribute. There was the *Kasasairam* tax, collected from the nomadic group of Borno as grazing fee similar to the *sheede hudo* paid by the Fulani. Another tax was the *hakki binimram*. While the *Sada'a* was recognized as a religious tax, the *Hakki* was recognized distinctively as a secular tax[21] and was collected by the *Chima Kura* (land owners) in kind and in cash. The very word *Hakki* (Kanuri for tax or dues) is derived from the Arabic root word *Haqq* meaning obligation. The payment of *Hakki* normally became due during winter which made it to be called 'winter' tax. The currency used was *wuri* (cowries), *gabaga* (hand woven cloth) or Maria Theresa silver dollars.[22]

Another form of taxation in Borno was *Kaleram* or *Toloram* (both mean the same thing). The *Kaleram* was a fee whereby the peasant farmers obtained an indirect permission of the sovereign (*Shehu*) via the *Chima Kura* to till the land. The fee was however, charged on individual households rather than on the farm. The fee was a fixed one and was paid at a uniform rate irrespective of the number and size of farm belonging to a household. As a rule, the *toloram* was to be paid in hard currency (the Maria Theresa dollar).[23] In some situations, the tax collectors also accepted cowries, cloth or grains as the equivalent of the dollar. *Warata*, another form of tax was paid by deceased subjects to the Shehu. Theoretically, the Shehu had this right over all his subjects, but in practice however, the right was only invoked in cases where the deceased had left behind substantial property-in cash, kind or both.[24] The amount due to the Shehu out of the *warata* was known as *ushr* i.e. a tithe or one–tenth of property. It was normally collected and sent to the Shehu by a village *Alkali* who also acting in judicial capacity, divided the rest of the deceased's estate among his heirs according to the formula laid down by the Sharia.[25] Another form of tax was the *Kafelo* which could be approximated to an obligatory 'gift' by merchants to the ruler. By 1850, another tax called *hadiyya* was being levied. The tax was paid during the Muslim festivals of *Id-el-Kabir*, *Id-el-Fitr* and *Mawlud*, and on each of the three occasions, the amount of tribute (in goods and cash) was specified for each of the provinces according to their respective sizes and wealth.[26]

The Yoruba States

Ife

It is generally considered among the Yoruba people that Ile–Ife was the centre from which the whole world was created. Ife is also known as the centre of cultural and religious life. It tells of a period when the whole earth was covered with water and god sent his messengers to go and create farmland out of the liquid mass. According to this tradition, the party consisted of the leader, *Obatala* and sixteen *Oye* (mortals). They were given five pieces of iron and a lump of earth tied in a white piece of cloth. Somewhere on the way, *Obatala* got drunk with palm wine and *Oduduwa* seized the paraphernalia of authority from him and eventually led the delegation.[27] The site on which these messengers landed is traditionally identified as the *Oke Oramfe*, in Ife. From this episode the town probably took its name Ile-Ife (the land of spreading).[28]

As the 'father-kingdom' and 'national headquarters' of the Yoruba, Ile-Ife enjoyed a unique constitutional and historical status. It was surrounded by other Yoruba kingdoms that acknowledged its 'fatherhood' and as a result, Ife had no fear of attacks from any quarters. Ife, therefore did not possess an army and the *Orisa* of Ife were not known to be great military leaders. Instead Ile-Ife took its duties as "ritual father" kingdom very seriously. An elaborate chieftaincy system was developed to look after all the known national gods, create and worship more of such gods and bury the remains of the kings brought back from their distant domains. Another notable development in Ife was art. Various objects were made in wood, stone and bronze. The bronze figures were made through the 'melted wax' process which was a technological advancement of the highest kind.[29]

The demand of the Islamic world for forest products and the resultant pull of trade towards the north were especially felt in the geographical belt between the Lower Niger and Dahomey.[30] Ife, situated in the centre of this belt obviously took advantage of the trade and generated revenue through trade tolls and levies.[31] Later there was an important trade route which crossed the Niger River and led northwards to the cities of the Hausa states.[32] In addition to trade tolls, Ife exported its artistic achievements and Benin became the most famous of those who learnt this artistic skill. Furthermore, Ife developed a system of annual levies, special contribution at specific festivals, fees, presents and bribes all collected through the heads of families. These sources provided revenues to the kings and chiefs relied on tributes, tolls and arbitrary levies for their revenues.

Oyo

Oyo possessed the most organized military and political systems and also acquired the largest territories of all the Yoruba kingdoms, making it the strongest of them all. It emerged as a strong kingdom in the middle of the 16th century. At its height, the empire of Oyo covered a huge area bounded to the north by the Niger, to the east by Benin, to the west by the frontier of modern Togo and to the south by the mangrove swamps and lagoons that form a barrier between the sea and the interior.[33] The rich soil in Oyo allowed the people to grow more crops than they needed. This helped the kingdom of Oyo to easily trade with neighboring groups. The Yoruba kingdom of Oyo started its era of imperial expansion in the early years of the seventeenth century, when *Alafin Obalokun Agani Erin* installed the first *Ajele* (Resident) in *Ijana* of *Ebagdo* district.[34] The previous years witnessed military successes resulting in the expansion of the empire in terms of territory and population. Two advantages aided the economic growth of the empire. Firstly, the empire interacted as a unit of a league of big socio-economic and political systems consisting of the other Yoruba States and the Benin kingdom.[35] Secondly, the whole economic area had a uniform currency in cowry shells. In spite of the opinion held by some scholars that money economy was introduced to West Africa by the colonial rulers in the late nineteenth century, use of the cowry shell as money in Yoruba economic region predated the arrival of the colonialists.[36] To make the maximum use of these two advantages of a common language and a common currency, the Oyo Empire, along with its sister Yoruba States organized a highly complex market system linking up with the markets of their neighbours.[37] Each town or village had one or more markets depending on its size. The towns and various market sites were connected by equally efficient roads. Trade routes led in all directions and were well and regularly maintained. One very important route in Oyo was that leading from Ileto to Dahomey and from thence to Ajase (Porto Novo).[38] There was yet another equally ancient route from Oyo Ile to Badagry. It was established in the early years of the seventeenth century, when *Alafin Obalokun*, installed the first *Ajele* at Ijana.[39] These internal routes linked up with international ones. The routes to the coast also joined the trans-Atlantic sea route from about the beginning of the seventeenth century.[40] There was another route from Oyo to Kano. Yoruba traders who traveled on the various routes and used the different markets organized themselves into trade guilds. In each town, there were at least two guilds of general traders, the *egbe alajada* and the *egba alaroobo*.[41] Members of both guilds engaged in medium and long distance trading going round to other towns and villages to collect their articles for sale in the larger towns or in their own town markets.

In addition to these two guilds, there were the specialized guilds of traders and tradesmen. These were named after the particular items they traded in. There were for example, *egbe alaso* (guild of cloth traders), *egbe alaro* (guild of dyers), *egbe onisona* (guild of carvers).[42] Generally, trade consisted of farm and manufactured products, basic necessities and luxuries. Apart from the food crops, the farmers also grew cotton, silk, shea-nut, palm oil and kola nut. Iron smelting and iron industries were equally widespread and basic to most of the other industries.

From the extensive trade that went on in the kingdom, Oyo was able to generate substantial tax revenues. All traders that went into Oyo paid duties at the gates. *Oyo-Ile* had ten gates, each with a gate- keeper who had a large establishment.[43] Likewise every city in the empire, indeed in the whole of Yoruba land, had gates at which similar tolls were collected on all imports. The number of gates depended on the size of the town or how commercially central the town was. Some of the towns were under the supervision of the chiefs resident in the capital while others were directly responsible to the king. Annually, or at festival times, each town brought either directly or through its supervisory chief, its presents and levies. In addition, conquered provinces paid various forms of tributes. For example, between 1747 and 1820, in addition to other items of goods, Dahomey paid 800,000 cowries annually to Oyo.[44] Moreover, all the towns within the empire paid death duties on all their most important deceased citizens.

Ibadan

The rise of Ibadan to the status of a great power in south-western Nigeria is one of the most important themes of nineteenth century history of Nigeria. Awe describes Ibadan a 'Republic of warriors' as Ibadan town was founded as a war camp in the 19th century.[45] Akinyele also opined that in Ibadan 'the leading enterprise was warfare; very few people were farmers, and the few were despised. Traders were few'.[46]

Although the political greatness and power of Ibadan in the nineteenth century was achieved mostly with arms, basic to this military strength was an economy which until 1877 was at least, adequate.[47] The most visible index of the rise of Ibadan was in terms of population growth. From a little village in 1827 Ibadan grew to a city of about 60,000 in 1852, and about 150,000 people in 1890. Partly contributing to this growth, and partly as a result of it, was a long series of successful wars which gradually expanded the political influence of Ibadan such that by 1877, she had become the centre of an empire comprising the whole of Ibadan and Ibariba Divisions, Oyo Division, Oshun, Ife and most of Ijesha, Ekiti, Akoko and Igbomina.[48]

Chieftaincy system comprised both a civil and a military segment with the *Bale* and the *Balogun* respectively at the top. In practice, military prowess determined the rise in chieftaincy hierarchy. There was no central army; rather each chief owned, maintained and led its army.[49]

In spite of Akinyele's observation above, Ibadan witnessed impressive growth in Agriculture. Indeed, what the statement means is that there were very few all-time farmers. The land tenure system grew directly from the whole social system, and conducive to full scale exploitation of the land. Every part of the farmland surrounding Ibadan was opened to all citizens, and each had 'a right to such land as he chose to occupy outside the walls, provided only that it be not already appropriated'.[50] In the nineteenth century, Ibadan was an exporter of food, especially to her Ijebu neighbours and through them to Lagos. Even during Ibadan's greatest wars, the town was plentifully supplied with these crops.[51] The demands of the thick population of Ibadan for local manufactures were naturally great, and consequently a large number of people earned living as weavers, dyers, tailors, blacksmiths, carpenters, tanners, leather-dressers, saddlers, potters and soap boilers, while others were employed in extracting palm oil and palm-nut oil.

Ibadan was not only the political, but also the commercial centre of a very large part of the Yoruba country, at least until about the middle of the nineteenth century. All the most important routes from further Yoruba hinterland converged on Ibadan. Of these, the most important were the routes through the Osun district to Ilorin, Igbomina and Ekiti, through Ife and Ijesa to Ekiti, Akoko, Owo and Benin.[52] Along these routes, Ibadan traders enjoyed much protection, as anybody who claimed even the faintest connection with an Ibadan chief was immediately inviolate in any part of the Ibadan Empire. Between Ibadan and the ports along the Atlantic seaboard, the chief routes passed through Egba and Ijebu territories. Of these the most important were the routes through Abeokuta to Lagos, Badagry and Porto Novo, and through Ijebu Remo to Lagos, other routes passed from Ibadan or towns under Ibadan through Oru and Ijebu-Ode to Lagos; from Apomu to Ijebu-Ode; and from Ile-Ife, Isoya, Ijebu-Igbo to Ijebu-Ode.[53]

The administration of these vast territories was made relatively easier because the communities were self-supporting. Each provincial community bore the maintenance of the *Ajele* and his troops of servants, messengers, attendants and hangers-on.[54] Each community paid regular tributes to Ibadan, mostly in cowries, pots of palm oil, and slaves. It is on record that in every town, 'a proportionate tax is levied on every house, which has to be paid every week or at farthest fortnight to the (local) king, who transmits it'.[55]

Colonial personnel recognised three distinct taxes being enforced in Ibadan and the whole of Yoruba land by the traditional institution. They were:

i. *Ishakole:* which was a kind of universal land rent

ii. *Owo ode:* a tribute paid by men and women alike, partly in cash and partly in kind. Half of this was sent to the paramount chief and half retained by the local chiefs. The tax was for the support of the chiefs and was in no way a religious impost. Tax defaulters were ordered to leave their land.

iii. *Owo Asinghu:* consisted of personal service (such as building and repairing of town walls, working on the farm of chiefs, etc.) together with contributions of food.[56]

Each town had one of the chiefs in Ibadan as its *Babakekere* (small father or guardian) through whom the tributes had to be sent to the Ibadan Council. As the *Babakekere* was entitled to retain some portion of the tributes before transmitting them, his guardianship was a substantial source of wealth to him. To Ibadan, such tributes constituted a substantial central fund and in addition, whenever Ibadan went to war, each provincial town was obliged on request, to send contingents of troops and food to Ibadan.

The Benin Kingdom

The word *Benin* was originally used broadly to cover the kingdom, the capital city, the empire, the language and its people.[57] The empire embraced both the Edo speaking people or the *Bini* proper and a large non-Edo speaking population. In describing the Benin kingdom, however a much smaller area bounded by Asaba and Ishan division on the east, Warri, western Urhobo and Aboh divisions in the South-east, Owo and Okiti-pupa divisions in the north and west respectively comes within this description.[58]

Pre-colonial Benin was a politically centralized kingdom where social status, political role and power depended largely on a well defined hierarchical system that recognized title holding.[59] The highest groups of title holders were the *Uzama* chiefs who were *quasi-Obas* in villages just outside the inner walls of the city.[60] These were followed by the title holders within the three palace societies of *Iwebo*, *Iweguae* and *Ibiwe*.[61]

The early political history of Benin is traced to the rule of *Igodo*, said to be the founder in about 900 AD.[62] There were several other dynasties such as the *Eweka* dynasty under *Ewedo* (1255-1280 AD), *Ewuare the Great* (1440-1473 AD). *Oba Ewuare* was known as *the Great* because his reign was arguably one of the most remarkable of all the Obas of Benin.[63] During his reign, Benin became a powerful and wealthy metropolis attracting artists, and experts in medicine and religion. Some of Benin's finest carvings, brass and bronze works date back to *Ewuare's* reign. *Ewuare* was able to control his powerful chiefs by creating the two orders of '*Palace Chiefs'* and '*Town Chiefs'* and assigning to them variety of administrative duties. *Ewuare* further embarked on series of military campaigns and conquered large areas of eastern Yoruba land, including the kingdoms of Owo, Akure etc.[64] The rulers of the places and towns conquered by *Ewuare* were forced to pay tribute to Benin. These conquests gave Benin power and prestige and this was also reflected in the development of the city itself with its good road system, skilled craftsmen and imposing buildings.[65] The relevance of this political structure is that it was largely related to the social and economic structure of the state. Benin also got much wealth from the slave trade, as the empire made its port of Ughoton available for the transportation of slaves and in the process shared in the wealth brought by the trade.[66] By the early fifteenth century, a sailing ship using triangular sails had been developed by the Portuguese with which they plied the slave trade in which Benin participated. Despite the wealth the trans-Atlantic slave trade brought to Benin, it also affected them negatively. As the trade became more lucrative, communities within the empire turned on themselves to carry out slave raids. This affected population growth and a decline in production.

The socio-political organization of Benin during the pre-colonial years of its history was dominated by the special position occupied by the Oba who was the pivot around which everything revolved. By the early part of the eighteenth century, the Oba generated substantial revenues from taxes, most of which came in the form of tributes. One 18th century European visitor to Benin documented the Oba of Benin's sources of revenue thus:

> The king has a very good income, for his territories are very large and full of governors and each one knows how many bags of *boesjes* (cowries), the money of this country, he must raise annually for the king, which amount to a very vast sum, which it is impossible for me to estimate. Others of a lower rank

> than the former, instead of money deliver cattle, sheep, fowls, yams and cloths; in short, whatever he wants for his house keeping.[67]

The various palace societies described earlier on, formed the hub of the economic organization of the Benin kingdom, and constituted a bureaucracy over which the Oba presided.[68] The Oba controlled the central administration, appointed the territorial rulers for governing outlaying districts and also participated actively in the most important secular and religious ceremonies as well as in several economic activities including the control of internal and external trade, trading associations, levying of tax, founding of work-camps and the establishments of farms and villages. He could create new titles and thus tilt the balance of power within any group of title holders.[69] The granting of titles was another source of revenue for the *Oba*. For most of the titles, the initiation rites involved the payment of fees and the presentation of gifts to the Oba in addition to those meant for the members of the title grade, association or society. All the titles which were non-hereditary were at the Oba's pleasure to confer on anybody whenever a vacancy existed either through death or on promotion of the holder to a higher rank.[70] Where individuals were given accelerated promotion through the grades to the highest titles, they paid all the fees and satisfied all the ceremonial requirements which were associated with the skipped grade.[71] Another source of income for the Oba was in the form of gifts.[72] Many areas, for example Lagos, continued to send gifts to Benin even after Benin ceased to exert its military influence there. In a similar manner, the Urhobo are said to have paid tribute to Benin up to 1850 while the Weppa and Agenebode people on the Niger in the Etsako section of the Edo-speaking peoples paid tribute up to the 1840s. Apart from the regular tax, tributes and gifts, the Oba could impose special levies, through the palace officials, on all villages and the Benin City chiefs in case of need or emergency. This compulsory exaction was known by the Bini as *Ugamwen*.[73]

Collection of tolls at fixed points was another source of revenue in pre-colonial Benin. For this purpose, there were nine entrances into the city[74] corresponding to the nine entrances into the Oba's palace. Each of these was under the charge of a titled chief who collected tolls from all persons entering the city. The amount paid by the traders was proportional to the value of goods carried. The traditional judicial system also constituted a considerable source of revenue for pre-colonial Benin kingdom. At the quarter level, the settlement of disputes took the form of arbitration and conciliation by the quarter elders. Fines imposed were shared by the elders. From the village level onwards, disputes were settled by the village council of elders and a special age-grade, charged with the responsibility collected fines and ensured payment. Fines paid at the Oba's court by offenders found guilty went to swell the state coffers.[75] All deputations from the villages to the Oba were sent through the chiefs as it was not all the Oba's subjects that had access to him.

The payment of *tributes* in pre-colonial Benin generally took two forms. The first was based on land grants while the second was based on custom and not related to land. Because of the Oba's role in making grants of land as well as re-allocations, he collected tributes from the non-Benin people. And this tribute was paid as a token of gratitude for the land received and as an acknowledgement that the occupier was not the owner of the land. This type of payment made when strangers settled on Benin land was called *Akorhore*.[76]

The Eastern Provinces

The Igbo

The Igbo people are one of Nigeria's dominant ethnic groups whose egalitarian worldview encouraged individual attainment rather than hereditary aristocracy. Consequently, the evolution of Igbo history did not permit the development of monarchies.[77] There is no agreement among the Igbo about where their ancestors came from. Some believe that they had always lived where they now live and that they did not come from anywhere else. Some of them however believe that their forefathers came from Egypt, Israel or some Eastern country.[78] Many of them accept the tradition that they all first lived in the area known as the *Nri-Awka-Orlu* axis. Linguistic features show the Igbo as belonging to the *Kwa* subgroup of the Niger Congo people; a fact which supports the claim of the Igbo to have existed for more than 6000 years.[79]

One significant difference in the political and social organization of the Igbo from the Yoruba, Kanuri, Hausa and Edo ethnic groups is that the Igbo did not develop monarchical forms of government. This means that they did not have kings. The nucleus of their political and social unit was the lineage.[80] Three types of lineages, classified according to size, could be identified among the Igbo. These were the minimal, major and maximal lineages. There was the age grade which was organized on a village basis. The association grew from boyhood and took a common name to commemorate an event associated with the time of their birth.[81] They collected fines from offenders and they could demand new laws. The age-group was thus a society of companionship and protection. It redeemed members who had lost their money, recovered runaway wives, carried out farm work, and collected debts.[82]

There were a variety of titles some of which were hereditary, while others were secured upon payment of fees to the community. Each town had its own traditional titles and compiled regulations for controlling them. Taking a title was a sign of wealth and high social standing.[83] The title holder was relied upon as a man of character, able to build up some following and contribute to projects of the community. Titled men were called *Ndi Nze* and they virtually monopolized authority in their wards or villages.[84] Thus the title system was of immense political significance in Igbo land. Because social advancement was based on personal merit, the Igbo political system has been described as egalitarian and democratic.[85]

The economic history of Igboland can be studied under three major heads agriculture, trade and manufacture. Each of these three main provinces of economic activity played an important part in the survival of the Igbo as a group and in determining the character and quality of the culture, even of their religion and cosmology.[86] By early thirteenth century, agriculture was the most important economic activity. Every Igbo man and woman was a farmer. Most families produced enough of such staples as yam, cocoyam, cassava and vegetables to last them all year round. Agriculture was highly ritualized. The beginning of the farming season, the date of which varied from one part of Igboland to another as a result of ecological reasons, was a formal occasion marked by a festival and ritual.[87] It was the same with the beginning of the harvest season which was marked by the very important New Yam festival. Subsidiary to agriculture, trade was an important aspect of Igbo economic activity. There were two aspects of trade, the development of regional trade within Igboland and the development of long range trade linking the Igbo people with their neighbours.

The northern Igbo plateau was (and is still) rich in iron ore deposits and in smelters and smiths who transformed the ore into iron, tools and ritual objects.[88] The Niger-Anambra valley produced fish while the Northeastern Igbo areas were endowed with salt (at Uburu) and lead (at Abakaliki).[89] Among the famed long range professional trading groups of Igboland were the Aro, Nri, Awka, Abiriba, Umunneoha and Aboh.[90] Much of the commercial transactions in Igboland in the eighteenth century were done with money. Currencies in use included salt, *umumu*, cowries, manilas, brass rods and copper wires.[91] The salt which came in earthen jars from Uburu was ground into fine powder and moulded into cones of different sizes and used in exchange transactions.[92] Iron money, known as *umumu* was minted on the Northern Igbo Plateau.[93] According to Afigbo, the *umumu* consisted of tiny pieces of iron resembling small squashed tin-tacks half an inch in length, with arrow shaped heads, and stem about the thickness of a large pin.[94]

From about the sixteenth century, the Igbo came in contact with the Portuguese. The *Aro* people in Igboland began to supply the Portuguese with slaves. They were able to maintain a monopoly of the trade by the use of the oracle located in their territory. This oracle called *Ibinukpabi* or 'long juju' was consulted by the Igbo people for various reasons. Because of this oracle, the Aro were feared and respected as children of the gods.[95] Profiting from this widespread respect, the Aro established a network of trading activities which provided an efficient trading system for the traffic in slaves. The Aro had a political organization different from the prevailing system in other parts of Igboland. The Aro clan was served by a general council comprising of representatives of its component villages. These representatives called the *Otusi*, were nine in number and were the heads of the nine main sections of the Aro clan.[96] The Aro built up a network of markets, trade routes and agent communities round the greater portion of Igboland.[97] There was a grid of trade routes connecting markets over the whole of central Igbo land on a regional pattern. The twin markets of Bende and Uzuakoli in South-central Igboland illustrated the convergence of traders from various parts of South-eastern Nigeria during the close of the nineteenth century.[98] One major feature of the commercial practice in these two markets was the system of agency or middlemanship. The Umuahia people served as middlemen for traders from Annang, Ibibio and Ngwa areas, while the Uzuakoli people served as middlemen for Awka, Okigwe and Onitsha traders.[99] This market complex was a meeting place for craftsmen, traders and primary producers.
The absence of a monarchy or any form of central authority made it impossible for a standard form of taxation to be practiced in pre-colonial Igbo society. The closest approximation to a tax system could be said to be the contributions to or collective execution of projects such as community roads carried out under the auspices of various social groups such as the age-grade associations.

The Coastal States

In the Delta region of Nigeria, there was a curious mix of states with varying degrees of political organization. The most powerful of these states were the Nembe, Calabar, Bonny and Brass.[100] Most of them could be referred to as 'city states'; that is, political units centered on a town to which outlaying settlements and villages looked for protection and for trade. These states were very well suited to their environment which was dominated by the saltwater swamps of the Niger Delta.[101] The Ijaw, Efik and Itsekiri are also among the inhabitants of the Niger Delta. Others are the Isoko, Ukwuani and the Urhobo. The latter groups live at the mouth of the River Niger and are served also by the rivers Benin, Cross River, Forcados, Bonny and Escravos, among others. The bulk of the area is swampy although the northern part is dry, and all belong to what has been described as *'a maze of islands, intersected by creeks and rivers.'*[102] The four Delta states of Nembe (Brass), Elem Kalabari (New Calabar), Bonny and Okrika are well known because of their participation in the overseas slave trade[103] in the seventeenth century.

By and large, the Delta province could be divided into the lower delta, comprising of the Ijaw, Itsekiri and Aboh, and the upper delta inhabited by the Isoko, Urhobo and Ukwuani.[104] This division of the province into two natural vegetation types has been an important factor in determining the relations among the peoples of the province in so far as their occupational pursuits have been determined by their varying natural habitats.[105] The lower delta dwellers were fishermen, makers of salt and earthenware and canoe. While the dwellers in the hinterland naturally took to agriculture and the exploitation of the oil palm, with some engaged in fishing.[106] The exchange of the products of their various occupations thus constituted an early determinant of inter-group relations; the 'water people' had fish, crayfish and salt to offer the land people, while the land people offered in return yams, plantain, pepper, and cassava plant. From about 1520 AD, slaves also became an important commodity in the commercial transaction between the two groups.[107]

Exclusive societies constituted an important feature of life among the delta groups. The Isoko had the *Odio* society while the Urhobo had the *Ohonwonre*, *Ade*, and *Okakuro* societies.[108] Membership of these societies involved the payment of fixed fees and the performance of prescribed ceremonies. Consequently membership of the societies was to some extent, an index of wealth and social status.[109] Among the Efik of Calabar, slaves were able to play an active part in *ekine* and *sekiapu* societies especially during festivities. Generally, too, secret societies played an important role in aspects of the community's affairs such as maintaining law and order, and providing useful training for youths and adults.[110] Conditions of membership varied among the states but certain rules were constant such as exclusion of female membership.

Among the coastal Delta states, the clan (*ibe)* was an important feature of life but it lacked the instruments of central control. Indeed, only the high priest representing the cult of the national god exercised authority over the whole clan.[111] Within the clan each village enjoyed a large degree of independence. The main political authority was the village assembly, known as the *amagula* and because of the great respect for age, the *amagula* was presided over by the town elder. [112] In addition, there were a number of specialized officers within the clan who were responsible for communications and administration of justice. Every village had its own priest representing the town deity. The village was further subdivided into wards which were in turn made up of small units known as *Houses*.[113] The *House System* paved way for the emergence of a new group of powerful chiefs. This was made possible by the Atlantic Slave Trade and the role the *Houses* came to play in the trade as military units.[114]

For most of the coastal tribes, the clan was the highest level of political organization. Their early political system was characterized by an absence of central control and by a large number of independent villages in which secret societies played an important role in all aspects of community affairs; and like in the case of the Igbo, this did not support the development of a tax system. Apart from trade, the other ways of raising revenues for the support of communal life was through payment of fee for initiation into societies and fines as penalties for offences.

TAXATION IN THE COLONIAL ERA (1861-1960)

The treatment of 1861 as the commencement year of colonial rule in Nigeria does not suggest that the entire region came under colonial rule on the same date as the annexation of Lagos. Indeed, the length of colonial rule in Nigeria varied across geo-political zones. In the case of Lagos, the rule lasted for almost one hundred years (1861-1960). In Eastern Nigeria, British rule was introduced after 1885 therefore; it lasted seventy-five years. In some parts of Northern Nigeria, British rule was introduced only as from 1903 and lasted only fifty-seven years.

Long before the British Government acquired Lagos as a colony, they had worked out a system of colonial administration for their tropical dependencies. This was the crown colony system of administration already established in the West Indies and India. Consequently, when Lagos was acquired in 1861, a typical crown colony administration made its appearance only a year later. A Legislative Council made up of a Chief Justice, Colonial Secretary and a Senior Military Officer in command of British forces within the colony was established in October, 1862.[115]

In imposing the crown colony system of administration on Nigeria or on any other non-white dependent territories for that matter, the British did not bother to reflect on whether this was in any way in agreement with the traditional system of government and administration in those territories. Consequently, it became the responsibility of Nigerians to pay for the administration of the British government and at the same time, maintain their indigenous local governments which were under *Obas* and *Emirs* (where they existed) and warrant chiefs (where the British had to create traditional stools in order to give effect to the *indirect rule* policy of colonial administration). Initially, the colonial administration generated much of its revenue from customs duties because the British government was cautious on introducing direct taxation. In 1866, canoe owners in Lagos were required to license their canoes or boats at the cost of ten shillings each per annum.[116] The government saw this as a good tax because inland waterways were one of the few reliable means of communication at that time. Another source of revenue was created in 1869 when traders using government-built market stalls were charged to pay monthly fees. The evolution of direct taxation in Nigeria as a deliberate policy however, is traceable to Lord Lugard's Administration in Northern Nigeria.

Indirect Rule and Taxation

Lugard described indirect rule as:

> rule through the Native Chiefs, who are regarded as an integral part of the machinery of Government, with well-defined powers and functions recognised by Government and by law, and not dependent on the caprice of an Executive Officer.[117]

The British administrators were to rule through the chiefs, educate them in their duties as rulers, seek their co-operation in the general administration, and ensure that their (chiefs') prestige was maintained.[118] This meant that where chiefs did not exist hitherto, the British had to create them in order that indirect rule could succeed.

There were at least three reasons for the British Government's adoption of indirect rule. First, the British had very limited number of administrative (or political) officers available to undertake direct rule of the country. Even if they had been available the country's poor public revenue could have proved inadequate for paying the officers. Second, it was considered unwise to drastically reform existing customs and methods until the British officials had acquired better knowledge of native law and custom. Third, the example of the loyalty and progress of the protected states of India where indirect rule had been practiced encouraged its introduction in Nigeria.[119]

Indirect rule was first implemented in Northern Nigeria and although the Moslem emirates had an impressive political structure in place before the arrival of the British, Lugard was of the opinion that independent non-Moslem communities in the north were not to be placed under Moslem emirs without the governor's consent, because in his words 'good government is no equivalent of self-government'.[120] Non Moslem communities were to be allowed to develop their own customs and traditions, and even where the governor consented that non-Moslem area could be included in a neighbouring emirate; the head of the community had to be a native of the area. The chiefs were not to be regarded as independent but delegates of the British governor as represented by the Residents. The central (British) government was to make laws, control the armed forces and impose taxes. All these limitations were set out in the letter of appointment of higher chiefs.

Direct taxation was introduced in Northern Nigeria by virtue of the *Native Revenue Proclamation No. 2 of 1906*. The actual collection of revenues however started in 1907, but in many parts of the north such as the Tiv areas, little or no tax was collected until the 1920s. The emirate councils were converted into native authorities and thus formed the first *nuclei of local government* in Northern Nigeria. Direct tax was imposed by the central government as the sovereign authority, and the native authorities were to collect and pay the whole to the government who would, in turn, return a large proportion of the collection to the native authorities for the administration of their services. The direct tax, as introduced in Northern Nigeria, was to replace the series of taxes, fines and other forms of irregular collections made by the emirs before the British conquest. Some of these included the *Kurdin kasa (*an agricultural tax on non-Moslems), *Khanraj* (a Moslem community tax), *Gausua* (festival present), *Gado* (death duties which amounted to confiscation of the estate), *Haku Binerum* (graduated income tax in Bornu), and *Jangali* (cattle tax). Some taxes such as the *Jangali,* *Kurdin Sarauta* and the *Haraji* were however not abolished. There was not much opposition to the collection of the new tax because of the highly organised tax systems that were already in place in the Moslem states prior to the arrival of the British. On the contrary, subjects of the emirates were accepted the new tax as a more just and equitable replacement for the former arbitrary and exorbitant taxes administered by the emirs. The emirs were also satisfied with the new tax system because of the certainty of collection which ensured regular remuneration for them.

The new tax was an income tax based on the total wealth of the community of which agricultural products formed the largest part. This wealth however included the products of local crafts and trades. Although it was a capitation tax, it was in fact a roughly assessed income tax on the people. In the developed Moslem townships like Kano and Zaria, attempts were made to introduce individual income tax assessment and tax receipts were issued to the payers for the purpose of identification. The tax was collected by the village or district heads appointed for the purpose of tax collection in addition to other administrative duties. In return for their services, the tax collectors were paid either a commission or salary.

In the western provinces, direct taxation was introduced by virtue of the *Native Revenue Ordinance* of 1918 but the application of the Ordinance did not extend to Asaba Division of Benin Province and the Warri Province. The tax was also an income tax, based on the income from agriculture and other trades, but mainly on agriculture at the time. This tax replaced a number of irregular collections of tributes and presents such as death duties in Egbaland, road tolls in Ijebu, annual levies in Oyo, and the regular tribute in Ondo province. The rates of tax varied from about six shillings to eight shillings *per capita.* Apart from disorders in Egbaland, there was very little problem of collection in these areas because, as in the north, the people appreciated the advantage of replacing the irregular exactions of the past with a new tax system which was regular and definite. Even the disturbances in Egbaland were rooted in factors remote to the introduction of direct tax by the colonial administration. In 1918, after Lugard persuaded the Colonial Office to allow him to introduce taxation in western Nigeria, he was not aware that the Egba people were seething with discontent on other issues prior to the introduction of the new tax regime. First, a newly promulgated forestry law angered hunters who felt that their area of vocational operation was being restricted. Secondly, the people had been told that free labour on road construction projects would continue even in the face of the new tax. Thirdly, the newly introduced sanitary measures empowered officious half-trained inspectors to poke their noses into women's private quarters to the disgust and annoyance of their husbands. With all these grievances on their mind, the introduction of direct taxation proved to be the spark that ignited the powder keg. In June 1918 the Egba therefore decided to 'go to war' with the British. They mobilised as in the old anti-Dahomey days. They uprooted the railway linking Abeokuta with Lagos and cut the telegraph lines. They ransacked European stores and killed a European trader. Lugard reacted swiftly by sending a crack force of 1,000 soldiers to Egbaland to deal with the rebels. No less than 500 Egba people were killed in the encounter. A Commission of Inquiry was later appointed to look into the 'little war' and give an impartial report. It identified the causes of local discontent and blamed the administration on the timing of the new measures and the handling of the trouble. By the time the report was published, however, Lugard had retired from the Colonial Service and it was left to the new governor, Sir Hugh Clifford, to bind the wounds .[121]

By 1927, government felt there was need to impose taxation on the Itsekiri and the Urhobo (of Asaba and Warri respectively) to provide for road construction, hospitals and schools as was done elsewhere in southern Nigeria. Consequently, the *Native Revenue Ordinance* was amended to make it applicable to Asaba Division Warri Province, and arrangements were set in motion to enumerate the taxable population for the purpose of tax collection. The British attempt to extend the direct tax system to these regions was however met with series of protests, particularly in Warri Province.[122] First, because the throne of the Olu of Warri had been vacant since the interregnum of 1848, there was no native administration in place to administer the ordinance. Second, people who were not educated on the justification for the new policy naturally took a strong objection to it. Furthermore, the fact that the tax was being imposed on a *'per head'* basis evoked repugnant memories of the slave trade when a slave's head or life was redeemable with the payment of a tribute to his owner. The people did not only equate the *per head* basis of the tax with the practice of slavery, they actually considered the tax more oppressive and demeaning because while a slave could be redeemed once and for all with a single lump payment *per head*, the proposed *per head* tax was to be an annual affair. The Itsekiri under the leadership of Eda Otuedon, a professional letter writer, and the Urhobo under the leadership of Oshue met in July 1927 and resolved to resist the introduction of the tax. At a secret meeting held at Igbudu village, some three kilometres from Warri town, the people resolved to:

a. boycott all trade with Europeans;
b. suspend further production of palm oil;
c. ensure the closure of all native courts;
d. resist arrests by court-messengers or the police; and
e. forcibly set free anyone arrested by the government functionaries.[123]

Between August and October 1927, these resolutions were translated into action. The Isoko people, who were not invited to the Igbudu meeting, voluntarily adopted the Igbudu resolutions and joined the resistance movement. District Officers were mobbed and their cars damaged and prisoners were set free at Oleh, Owe, Agbarho and Ughienwe.[124] The closure of the native courts was effected by either abducting the warrant chiefs who served as judges in these courts or frightening them to go into hiding. In some places the warrant chiefs were made to pay a fine of £30 each as punishment for their collaboration with the British Administration.

In 1928, the system of direct tax was extended to the eastern provinces sparking off series of demonstrations in Calabar and Owerri Provinces, but the most serious resistance to the introduction of direct taxation in the east was the Aba riot of 1929.[125] The background in the eastern region was rather more complicated than that of the north and the west because whereas in the north and the west, the existence of fairly organised states was instrumental in the entrenchment of indirect rule, the absence of powerful chiefs in the east impelled the British to introduce the system of warrant chiefs. Not only was the notion of kingship alien to the political and social formation of easterners, the warrant chiefs appointed by the British were more or less imposed upon the people as a result of which they were not accepted by the people.[126] Further to the above, the prices of export produce were low and the prices of imports high, creating an economic downturn that could only be further aggravated by the introduction of direct taxes. The other main cause of the riot was the wrong impression that women were going to be taxed.

As stated earlier, direct taxation everywhere in Nigeria was an initiative of the colonial government. This was not an accident because the government made it clear that, as the sovereign power, it had unquestionable right to impose tax. The native authorities were to make the collection with the assistance of administrative officers; and in practice, only the government's share was paid into government coffers to form part of the general government revenue; the balance was retained by the native authorities. The remarkable feature of this arrangement was that a direct financial relationship between the central and the local government was introduced in the administration of public finance in Nigeria. The central government also recognised the need for allocating part of the tax proceeds to the local government authorities for the provision of social services. This was in fact the beginning of what one would describe as the history of local government finance in Nigeria.

A very important innovation introduced by the British Government was the establishment of native treasuries since according to Lugard; 'no tax, no treasury; no treasury, no self-government'.[127] Apart from using it for the efficient administration of tax and other revenues, native treasuries were considered factors of unification among the population. They were financial bonds of unity which reduced the temptation to break off from the native authority as a political unit. This axiom applied very much to Warri Province and eastern Nigeria where the clans were very small and a number of them had to be induced to federate in order to own a joint treasury. Once the treasury was kept going and funds were used to develop all parts of the unit or federation of native authorities without discrimination, there was less temptation to secede.

The advanced emirate and native authorities in the northern and western provinces received 50 to 60 per cent of tax proceeds collected by them while the less developed native treasuries received about 25 per cent. The basis for grading a native authority as organised was that it was capable of undertaking large scale social services because of its wealth and staff, and it was therefore argued that a greater share of the tax revenue should be given to it to administer these services. On the other hand, native authorities which were relatively poorer and therefore could not employ qualified staff were graded as unorganised and it was argued that a small proportion of the tax revenue collected from their areas should be given to them as they could not undertake expensive social services.

Other sources of revenue included *Jangali*, which was imposed in northern Nigeria on a *per capita* basis on all adult cattle at a fixed rate per beast; 10 per cent of this revenue was taken by the government and 90 per cent by the native authorities. In addition, there were the following sources of revenue: market fees, court fines and fees, forest royalties, school fees, and in the north fees for estate administration, revenue from prisoners' labour and their crafts, and in the south earnings from electricity, water, corn mills, fishing permits to aliens, palm produce permits to aliens, rent on communal land, and other miscellaneous revenues which were exclusively collected by the native authorities.

In the north, the *kurdi sarauta* was also paid as occasion demanded. Throughout the country, forced or unpaid labour continued to be used to maintain town and village roads with or without grants-in-aid from native authorities, but forced labour was prohibited for the construction of town roads and chiefs' houses. The main heads of native authorities' expenditure were: the salaries of emirs and chiefs and their staff. To avoid disparity in the salaries of various chiefs and emirs, all increases in the salaries and the creation of new posts had to receive the Governor's approval when the estimates were being considered. The salaries and allowances of the personnel of the following departments of the native authority and other expenditure incidental to their administration were included: Native treasurer, native authority police and prisons, judicial, education, agriculture, survey and public works. Other expenditure of the native authority included pension and allowances to deposed chiefs and expenses on Moslem religious projects and writing off of losses.[128] The estimates of the authorities had to be carefully vetted by administrative officers before the Governor's approval, and rules were made for the control of expenditure, in many cases by tying it to the relevant revenues.

The peasants, who were emancipated from the former irregular tributes, were now free to use their initiative and industry to the economic advantage of the country. Unlike the absentee landlords and tax gatherers they had come to replace, district heads or state officials had to earn their living as such. The number of titular office holders and tax gatherers was reduced, and this resulted in saving of public funds. Annual estimates of revenue and expenditure were regularised, ensuring that native authorities who collected the money had to account fully for it. Subsequent Native Authority Ordinances (No. 43 of 1933 and 17 of 1943 as amended by Ordinances Nos. 3 and 73 of 1945) mainly restated the principles in the 1916 Ordinance and made the following provisions: native authorities were required to make declaration of native custom with respect to the various functions and powers delegated to them, and such declarations were used by administrative officers as the basis for filling vacancies in native authorities, whenever the need arose. The supervisory powers of government officers over native authorities departments, e.g. police and prisons, were clearly defined. Finally, Native Authority (Amendment) Ordinance No. 34 of 1951 conferred on native authorities the right of perpetual succession to the ownership of property vested in them.

The inequity associated with the allocation of direct tax proceeds on the basis of *organised* and *unorganised* native authorities continued until 1948 when it was abolished and in its place, a new formula was introduced whereby native authorities paid into the revenue of government six pence *per capita* of tax collected from men and three pence *per capita* of tax collected from women. The balance was to be retained by native authorities. This marked the first uniform system of distributing direct tax revenue between the government on the one hand, and all the native authorities on the other. Further to the above, Sir Sidney Phillipson in his report on revenue allocation[129] strongly objected against the discretion the central government exercised over the allocation of proceeds from the *Native Revenue Proclamation No. 2 of 1906*. Although collection of the tax was done by local authorities, their share of the revenue was unpredictable, being subject as it were to the discretion of the central government. Phillipson recommended that local authorities be given maximum incentive to collect tax by making their share of the proceeds certain and predictable He accordingly proposed a statutory apportionment on a *per capita basis.* In his words:

> I propose the retention of a single tax but with a fundamental change in the method of apportionment. I need hardly emphasize that the scheme is conceived in the interests of the native administrations themselves. Under it, their position will be greatly improved; they will know where they stand, and that for certain approved purposes, they will get financial assistance; apart from such regulated assistance, they will be called upon to exercise the vital responsibility of self-dependent finance.[130]

Sir Sidney Phillipson's recommendations were given legal form by the enactment of Ordinance No. 2 of 1948 pursuant to which native authorities were :

> required to pay into such Government treasury as the Resident may direct, a sum representing an amount collected by the taxpayers of the areas calculated at the appropriate rate per head prescribed in the Schedule of this ordinance.[131]

The schedule was from time to time revised and by 1957, the amount was raised to five shillings per capita on each adult male taxpayer. 10 percent of the cattle tax was also, at this time, paid to the central government. Also as a result of Phillipson's recommendations on revenue allocation, the government published a white paper in 1948 providing for the supervision by government officers of native authority departmental activities in order to ensure that the increased amount of grants-in-aid now going into the hands of native authorities was being properly spent.[132]

The community tax *(haraji)* and the cattle tax *(jangali)* were by far the most important sources of revenue accruing to local authorities in northern Nigeria. These two taxes accounted for about 60 to 70 percent of total local revenues. Although collected locally, they were in fact state government taxes and the local authorities collected the taxes on behalf of the government and the revenue was disposed in accordance with the provisions of the personal tax law. However, at least 75 percent of the proceeds therefrom were retained by the local authorities and the balance remitted to the regional government.
Community tax was payable by all adult males who were *'in good health'* and not liable to income tax. The basic rate was fixed for the community and the *per capita* contribution was agreed upon by the local authority and approved by the Ministry for Local Government. The rate of the tax was decided after careful consideration of the rates payable in the neighbouring community areas; the wealth of the community being assessed; the financial needs of the local authority administering the community area; and any special factor affecting the community concerned; for example if there was a bad harvest owing to draught, then less tax could be demanded.

The factors employed in assessing community tax were fraught with problems. First, the tax assessors had no competence to determine with scientific certainty the medical status of taxpayers and no provision was made for the production of a medical certificate as a yardstick for exemption; therefore, no objective way of determining the good health or otherwise of an adult who was ordinarily chargeable to tax existed. Second, the rates payable in a neighbouring community could only be of limited relevance in determining the level of the tax in the community to be assessed. For example, the rates payable by a neighbouring community that was substantially engaged in trading could not be properly applied to a community that was predominantly agricultural. Third, using the wealth of the community to be assessed as a criterion for determining the rate of tax payable turned up the problem of determining, with some reasonable degree of accuracy, the total income or output of the area. The result was that the assessment was no more than a rough guess based on such factors as the number of newly erected buildings; the quality or quantity of the properties; or sometimes mere hearsay. Fourth, community needs could be multifarious and costly; therefore using the financial needs of a local authority as a yardstick for tax assessment engendered a tendency towards over-taxation which, in turn, could breed discontent and rebellion. Like earlier pointed out, the personnel employed for the purposes of tax assessment and collection were not properly trained for the job and majority of local authorities could not afford to employ trained personnel even if they were available. In spite of the foregoing criticisms, community tax remained a veritable source of revenue for the native authorities.

Local Government and Taxation in Western and Eastern Nigeria

The Native Authority Ordinance No. 43 of 1933 and No. 17 of 1943, as amended by Ordinance Nos. 3 and 73 of 1945 also applied to the native authorities in Eastern and Western Nigeria up to 1950 and the Western Region Local Government Law, 1952, introduced democratically elected local government councils to replace the native authorities in both regions.

Western Nigeria

In 1952 as a result of the constitutional changes, native authorities became the responsibility of regional governments and in the same year, the Western Region Local Government Law provided for the establishment of democratically elected local authorities to replace existing native authorities. The law also provided for a limited membership of traditional office holders who did not have to stand for popular election. Until 1952, the native authorities, strictly speaking, were not independent units. They were an indirect arm of the central government and had a very limited sphere for any action independent of the British administrative officers. Another important feature of this system was that subordinate native authorities had no funds of their own; they were the spending arms of the larger native authorities and in some cases, assisted the latter in collecting revenue. The *Western Region Local Government Law 1952* however, provided for the establishment of district and local councils to replace the smaller native authorities. These councils, which derived their powers from the law, were not to be subordinate to the divisional councils and were all to be elected, subject to the addition of traditional members. Another important feature of this law was the increase in the powers given to the councils. For example, they were empowered to maintain secondary and primary schools irrespective of whether voluntary agency or government schools already existed in their areas. They could also build and maintain hospitals and establish any large scale projects subject to the availability of funds and qualified staff. They could employ supervisory staff of their own instead of depending entirely on government staff.

The 1952 Law was replaced in 1957 by the *Western Region Local Government Law 1957*.[133] The new law repealed the *Direct Taxation Ordinance, 1940*, in so far as it applied to the western region, and empowered local authorities to levy general, education, and other rates to finance those services hitherto financed from revenue collected under the *Direct Taxation Ordinance 1940* in so far as it applied to the western region. Provision was made for the appointment of rate assessment committees to make rate assessment, and for appeal tribunals to hear rate appeals, and for the commissioner of income tax to review rate assessments made by assessment committees. In 1960, the Western Region Local Government Law was amended to introduce a major change by removing the powers of local authorities to impose and collect general and primary education rates. In lieu of these, the regional government empowered them to collect the regional government tax and development contribution from self-employed persons on incomes not exceeding £300 per annum.[134]

The Western Region Income Tax Law, together with the amendments made thereto,[135] imposed a progressive income tax on all taxable males 16 years of age and above with incomes of £50 per annum or more, and on taxable females of the same age mark whose incomes exceeded £300 per annum. The rate of this tax varied from nine pence per pound for the first £500 of taxable income to nine shillings of every pound in excess of £4,300 of taxable income.

For the assessment of the local authority share of the tax, assessment committees were appointed by the regional Minister of Local Government for a one-year term, to act as advisers to regional Tax Board inspectors, who carried out the actual assessments in Western Nigeria. In Mid-Western Nigeria, however, the assessment committees still carried out the assessments while the councils' tax clerks revised the nominal rolls to bring in names of taxpayers who became eligible by virtue of age. Thereafter, all self-employed taxpayers on the nominal roll were sent forms for declaration of their taxable incomes for the (previous) tax year ending. On receipt of the declaration forms, the various assessment committees or tax inspectors proceeded to assess the taxable incomes of all self-employed taxpayers and other wage earners whose taxes were not collected under the *Pay – As – You - Earn* system

(PAYE), irrespective of whether the income declaration forms were in fact received from some of the taxpayers. In the course of assessment, a taxpayer could be invited to appear in person before the committees to clarify some points in connection with his income and in some cases he could be asked to forward written explanations. Assessment notices were published in the wards of those concerned whose taxable incomes were between £50 and £300. In some cases the publication of the assessment notices was followed by the issue of individual assessment notices to those whose incomes fell between £51 and £300 per annum. These notices were required to state the date on which the tax and rates became due for payment. After this, collection commenced and this was done by council tax clerks and in the case of some rural areas, with the assistance of commissioned tax collectors. Any tax not paid within two months of becoming due made the taxpayer liable to a surcharge of 10 per cent of the tax, which had to be paid along with the tax. At the end of two months, demand notes were sent to defaulting taxpayers in respect of the tax and the surcharge, and if after a further period of 30 days these were not paid, the defaulters were criminally prosecuted in the magistrate's court under section 58 (IA) of the Income Tax Law. A taxpayer who was convicted under the law was liable to a maximum fine of one hundred pounds or six months' imprisonment, in addition to the payment of his tax and surcharge.

Under section 12(1) of the Income Tax Law certain classes of income such as profits of co-operative societies and health gratuities were exempted from tax. The regional Governor-in-Council could also exempt other persons or classes of persons or their incomes from any source from the income tax. On the regional Tax Board's recommendation, an independent local appeal committee with members appointed by the regional Minister of Finance was formed to hear appeals against tax assessments in the area of a council or a group of councils. An aggrieved taxpayer could appeal against his tax assessment within 30 days of the receipt of such assessment, although he could appeal after this period if the local committee was satisfied with his excuse for not appealing earlier. The aggrieved person was required to pay a fee of five shillings and a deposit with the council concerned of the amount of any tax due under the assessment appealed against, or the amount paid by that person as tax for the preceding year of assessment, whichever was less, and to also appear in person before the committee when his appeal was being considered. The committee could alter his assessment depending on the merit of his case and was further empowered to award costs against the appellant if his appeal was frivolous. The council concerned could also appeal to the committee against an assessment and the appeal was determined based on its merit or otherwise. Either party to the appeal proceedings had a further right of appeal to the High Court whose decision was final; but if the assessable income was £1,000 or more, a further appeal to the Supreme Court was allowed.

Eastern Nigeria

The demand for local government reforms in the eastern region led to the passage of the *Eastern Region Local Government Ordinance, 1950*.[136] Under this Ordinance the native authorities in Eastern Nigeria were replaced by counties, districts and local councils; patterning local government administration after the British model.[137] The members of the former were almost entirely elected apart from traditional office holders who were members of some councils. By 1954 all new councils had been established. These councils had wide powers including the power to appoint staff and to determine their salaries and conditions of service independent of the regional government, provided the salaries did not exceed four hundred pounds. They were empowered to collect personal income tax under the Direct Taxation Ordinance of 1940 and to collect rates to finance specific local services.

In 1955, the Eastern Nigeria Local Government Law was passed to address the shortcomings identified in the implementation of the 1950 Ordinance. These shortcomings included, among other things, inadequacies associated with the assessment and collection of taxes. The new law essentially enhanced the powers of the Minister responsible for local government affairs as a check on the excesses and inadequacies of the councils. In 1956, the eastern region passed the Eastern Region Finance Law[138] which superseded the *Direct Taxation Ordinance, 1940*, as it applied to the region. The new law handed over the primary responsibility for income tax assessment and collection to the government Department of Inland Revenue. This change was informed by the realisation that income tax was collected more efficiently on a regional rather than on a local level. During the first few years, councils were used as collecting agents until the department built up its own organisation and took over this function completely from the councils. In lieu of tax revenue, government paid block grants to the councils on population basis, ranging from four shillings and six pence per head of population in each rural council area to six shillings per head for the urban counties and municipal councils.[139]

Local councils existed within the areas of authority of all rural county councils but not within either municipalities or urban county council areas. A point of difference between rural county councils on one hand and urban county and municipal councils on the other hand was that the last two were empowered by their instruments to levy and collect property rates. The difference between municipal councils and county councils was that the former had mayors and deputy mayors while the latter had chairmen and in most cases presidents, in addition. With the exception of these differences, all county and municipal councils in Eastern Nigeria had practically the same powers and functions as those performed by local authorities in other parts of the federation.[140]

Lagos

The first semblance of local government was introduced in Lagos when, under the *Public Health Ordinance No. 5 of 1899* a Central Board of Health was established, consisting of the principal medical officer (as president), the sanitary engineer (or whosoever was performing his duties), the health officer of Lagos and not more than four other persons appointed by the governor from time to time. Subject to the approval of the Governor-in-Council, the Board was empowered to make, alter or amend such regulations as might be required to implement the health ordinance provisions, which included sanitation of markets, management of cemeteries, control of animals, and prevention of overcrowding. The functions of the board included night soil disposal, licensing of vehicles and wheel tax, refuse disposal, building regulations, town planning and slaughter-house maintenance.

The rapid urbanisation of Lagos colony and the attendant sanitation concerns led to the metamorphosis of the Board into the Lagos Municipal Board of Health.[141] This was achieved pursuant to the *Lagos Municipal Board of Health Incorporation Ordinance 1909*. Pursuant to the Ordinance, the Board was empowered to enter into contracts and gave the right of perpetual succession and the power to sue and to make bye-laws. It also extended its jurisdiction to include sales by auction, spirit and dog licenses, maintenance of licenses under the Township Ordinances, and licensing of vehicles, with all the fines and fees from prosecutions under these and the public health and certain other ordinances, being assigned to the board as revenue. The Township Ordinance[142] was enacted with the main purpose of establishing the broad principles of municipal responsibility, graduated according to the importance of the community. The Lagos Town Council was set up as a first class township council with a president and vice-president and directed, among other things, to put into effect the provisions of various ordinances affecting the township and the rates, fines and fees accruing from such enforcement went to the council revenue. It was also empowered to make bye-laws to be approved by the governor for collection of vehicle licenses and of fees for the council's services.

To be qualified to vote, the *Lagos Township Ordinance No. 9 of 1941* (which replaced the *Lagos Township Ordinance No. 29 of 1917*) required that a male person be at least 21 years of age, or in the case of a firm, business, company, club, mission, or other body of persons, it had to be:

a. responsible for the payment of rates on a tenement of which the capital value, annual or unimproved value was not less than £225, £15 or £60 respectively or
b. an occupier of such a tenement paying an annual rent of £18 or more and who had occupied the tenement during previous three months.

The Council's main source of revenue was tenement rates which were introduced in 1915 under the *Assessment Ordinance 1915* and assessment of property was made by the town engineer who was empowered as the 'appraiser'.[143] Furthermore, the Council was empowered to levy an annual rate and this meant that the annual general rate could not be varied during the year once it was fixed at the beginning of the year. However, this changed pursuant to the 1941 Ordinance which empowered the Council to levy the rate half-yearly, thus also enabling it to vary the rate mid-year.

An independent rate assessment committee was established for the first time in 1948 to deal with objections under the *1915 Assessment Ordinance*. The new committee was placed under the chairmanship of the commissioner of lands and an officer of the lands department was appointed as secretary. All objections were now sent to the committee which notified the town clerk of its decision for departmental action.[144]

In 1952 Lagos township was merged with the western region of Nigeria;[145] only to be detached from the region again in 1954 and conferred with the status of federal territory[146] and series of legislation were enacted in order to effect the practical changes arising from the constitutional change. In 1959 the Lagos Local Government (Amendment) Ordinance was passed. The law empowered the federal government to make regulations for ensuring, among other things, that the council maintained grant-earning services to meet laid down standards. The bases of government grants to the council were clearly set out percentages.

The functions and powers of the Lagos town council were substantially the same as those of the native authorities in the north and the respective councils in the east and west with the important distinction that unlike native authorities in the north and some councils in the west, Lagos town council did not maintain local government police and prisons.[147]

Method of Assessment

In the colonial era, there were a variety of methods of assessment for tax purposes and they varied across the country. The basis characteristics of the methods of assessment were that they were not scientific. The reason for this cannot be far from the fact that there was a dearth of information on which the assessment could be based. Also, the literacy level militated against proper assessment. With reference to income tax of individuals, it is on record that there were seven major methods of assessment in Northern Nigeria. These included:

(a) *Locally-distributed income tax*: This was the most general method, being applied to about 90 per cent of the population. This involved the imposition of tax on a community as a whole and the apportionment of the tax to the inhabitants according their ability to pay.

(b) *Poll tax*: This was a flat tax imposed on the inhabitants of a community where the difference in their income was negligible.

(c) *Tax on ascertainable incomes*: this was imposed on civil servants and employees of native authorities and commercial firms who had ascertainable incomes.

(d) *Wealthy traders' tax:* this was imposed on traders. It involved the charging to tax of the estimate of the income of the traders by the local assessment committee.

(e) In mining areas where there was a large and, to some extent, shifting labour force, a tax of was payable.

(f) *Strangers' tax*: This tax applied to to non-Nigerians and Nigerians who were not of northern Nigerian origin by birth. It was based on the apparent wealth of the person concerned, and could be paid in areas where the locally – distributed income tax or poll tax applied.

(g) *Land revenue tax*: Based on a detailed assessment of the average productivity per acre in each revenue survey district.[148]

In the old western provinces, the tax system made use of a combination of flat rate with an income tax. The tax system subsequently metamorphosed and the following types of tax were levied: flat rate, income tax rate, trade taxes and a tax on unearned incomes with the last two been levied in the Oyo and Ijebu provinces only.[149] It should however be noted that company income taxation was not as problematic as personal income taxation as the *Income Tax Ordinance of 1943* fixed company tax at 5 shillings in the pound on taxable profit.

TAXATION IN THE POST-COLONIAL ERA

Nigeria was granted full independence on October 1, 1960, as a federation of three regions (northern, western, and eastern) under a Constitution that provided for a parliamentary form of government. Under the Constitution, each of the three regions retained a substantial measure of self-government. Prior to 1960, the Raisman Commission was set up to review the existing taxing powers and revenue allocation formula as this had become an issue subsequent to Nigeria becoming a federation in 1954.[150] The Commission recommended that the federal government should have exclusive power over corporations' and companies' taxes as well as taxation of non-residents persons, and to enter into double taxation agreements with other countries. The regions (later states) had exclusive power to impose personal income tax on individuals, sole traders, partnerships, clubs, trusts and other unincorporated associations.[151] These recommendations formed section 70 of the Nigeria (Constitution) Order-in-Council 1960. In giving the regions exclusive power to impose personal income tax on individuals, the Commission identified three problems that might arise:[152]

a. the danger that regional personal income tax law might conflict with double taxation agreements which the federal government has entered into, or might do so in the future with foreign governments.
b. the danger of internal double taxation.

It was recorded in the Commission's report that the eastern region taxed the individual incomes of its residents while the western region not only taxed those residents in the west, but also taxed any income which was derived from the western region irrespective of the resident of the recipient.[153] The result of this was that a resident in eastern Nigeria working in western Nigeria would be taxed twice on the same income by both governments. The Commission felt it was desirable to define carefully what income would be subject to income tax by which tax authority.[154] Consequently, while granting each regional government the exclusive right to fix tax rates and personal allowances and to decide upon its own method of assessment and administration, the Commission went ahead to recommend areas wherein there needed to be uniformity. These included:

a. the definition of taxable income and the basis of charge;
b. the period of assessment;
c. the taxation of income remitted to Nigeria from overseas sources;
d. the taxation of income accruing in Nigeria to residents overseas;
e. the approval of pensions and provident funds for tax purposes;
f. the treatment of dividends;
g. the taxation of partnership;
h. the type of information to be exchanged between one tax authority and another.[155]

The acceptance of the foregoing is the basis for section 70 (ii) and (iii) of the 1960 Constitution Order – in - Council which conferred concurrent powers upon Parliament to make laws for Nigeria or any part thereof with respect to certain enumerated uniform principles in relation to personal income tax. The consequence of this was the enactment of the *Income Tax Management Act 1961* (ITMA) and it defined taxable income and the basis of charge, the period of assessment, the list of allowable deductions, the treatment of dividends as well as the general administration of personal income tax.[156] Corporate taxation was placed within the purview of the Federal Board of Inland Revenue, established under the *Companies Income Tax Act No. 22 of 1961*. The Act categorized assessments into four types vis: original assessment, additional assessments, amended assessment and revised assessment.[157]

The complexity of the tax system worsened rather than improve when Nigeria became a Republic in 1963 and the provisions of section 70 of the 1960 Constitution were re-enacted under section 76 of the 1963 Republican Constitution. This is because the mid-western region which was created adopted the tax law of the western region. Thus, while the issue of internal double taxation was sought to be eliminated by ITMA 1961, the issue of different rates of tax, reliefs and personal allowances still prevailed because there were four legal regimes regulating personal income taxation in the four regions.[158]

1966-1979

In May 1967, pursuant to Decree No. 14, the Federal Military Government divided the country into 12 states.[159] The newly created states applied the income tax laws prevailing in the region from whence they had been carved. This took the complexity in the Nigerian tax system to another level.

Lagos being one of the newly created states assumed a new status and as a consequence, collection of personal income tax in Lagos was divested from Federal Inland Revenue Department and became the responsibility of Lagos State Internal Revenue Department. Several developments occurred in terms of tax and tax related legislations such that between 1967 and 1975 there were at least twenty-one legislations including ammendments. In 1975, the Federal Board of Inland Revenue (FBIR) established an office in every state capital to enhance maximum cooperation from the state tax authorities. This idea originated during the Jos Conference of the Joint Tax Board (JTB) in 1972, and received the blessing of the Federal Military Government as part of its Third National Development Plan (1975-80).[160] The revenue collected by the FBIR at this period constituted over 60 percent of government total annual revenue, and the major sources of its tax revenue were from petroleum profit tax, companies' income tax, capital gains tax, personal income tax (armed forces and other persons), individual tax arrears, etc.[161]

On January 12, 1977 the Federal Board of Inland Revenue was reorganized such that the Federal Inland Revenue Department became the executive arm of the Board. In the course of the year, legislative changes were also made. With respect to pioneer companies, any agro allied projects whose raw materials were produced locally was entitled to pioneer certificate for the statutory period of 5 years whereby profit made was tax-free as provided under the *Industrial Development Income Tax Relief Decree 1971*. In the realm of personal taxation, a taxpayer became entitled to either 600 naira personal allowance or one tenth of his annual earned income whichever was higher while dependent relative allowance became 400 naira per any taxable person who made a claim.

The government also approved with effect from 1977 to 78 certain fiscal incentives to oil companies in order to create favourable investment atmosphere for the companies, strengthen the mutual confidence between the government and the producing companies and to encourage greater exploration and production activities. The incentives covered expensing of exploration drilling cost, petroleum profits tax and royalty rates modification, amortization in five years of all capitalized expenditure, granting of investment tax credit on the basis of area of operation and increase in company margin for light and medium oils.

In 1978, the Federal Military Government set up a Task Force on tax administration under the chairmanship of Alhaji Shehu Musa, permanent secretary of the federal ministry of finance at the time. The Task Force was to:

i. examine the source of tax revenue and the structure of tax administration in Nigeria;
ii. assess the effectiveness in the management of the existing taxes both at the federal and state levels; and
iii. suggest ways and means of making the administration of the tax system more effective and efficient.

The Task Force submitted its report in 1979 and the outcome of that report was the promulgation of the *Companies Income Tax Decree No. 28 of 1979* (CITA 1979) which repealed the Companies Income Tax Decree of 1961. Also, as an outcome of the Shehu Musa Task Force, the government introduced the withholding tax regime which imposed a 10 percent levy on excess profits of banks and 21 percent turnover tax on building and construction companies.[162] The CITA 1979 also established the Federal Board of Inland Revenue[163] and vested it with the administration of the Act as well as the *Capital Gains Tax Act 1967, Petroleum Profit Tax Act 1959, Stamp Duties Act, Armed Forces and Other Persons (Special Provisions) Act 1972* and *Industrial Development Income Tax Relief Act 1971*. Also, section 52 of CITA 1979 established the Body of Appeal Commissioners. The members were appointed by the Honourable Minister of Finance from among members of the accountancy or legal profession and business men who appeared to him to be competent. They were to be 12 in number and to be headed by a chairman. Another improvement brought about by the Act in the course of the year was that cases referred to the Revenue Court needed not be heard afresh. Thus, section 55 (3) of the said Act made a significant improvement such that an award of judgment of the Board of Appeal Commissioners was enforceable as a judgment of the Revenue Court, upon registration of a copy of such award with the Chief Register of the Federal Revenue Court by the judgement creditor. Under the Companies Act 1961, cases could be started afresh at the High Court. In consequence therefore, under CITA 1979, the Body of

Appeal Commissioners became the final arbiter on questions of facts and an appeal from them to the Revenue Court was on point of law by way of a case stated.

Tax Administration since 1979

In the early 1980s, some state governments notable among which were Bendel, Ogun, Lagos, Oyo, Cross River started agitating for increased taxing powers in order to boost revenue from internal sources to prosecute their development programmes. This agitation revolved around the importance of the sales tax to the revenue needs of the states. A sales tax is a tax levied on the purchase or sale of designated commodities (goods or services). Although it may be collected at any stage in the course of the movement of the commodity between the manufacturer/producer and the consumer; and it may be a single or multiple stage tax, the intention is that it be borne by the final the consumer. Thus it is a consumer or expenditure tax. The sales tax initiative taken by state governments presented some problems prominent among which were:

a. the likely breach of the country's constitution regarding the appropriate authority to impose tax;
b. the likely confusion resulting from divergent legislations applicable in different states;
c. possible arguments relating to the appropriate tax jurisdiction with respect to inter-state trade.

In order to eliminate the above challenges, the federal government promulgated the Sales Tax Decree in 1986.[164] The decree abolished all the previous sales tax enactments by state governments.

Furthermore, certain proposals contained in the 1986 and 1987 budget speeches of military president Ibrahim Babangida were codified into law by the enactment of the *Finance (Miscellaneous Taxation Provision) Decree No. 12 of 1987*. Some of the highlights of the decree were:

a. the reduction in the rates of companies and individual taxes;
b. the application of the withholding tax on contract, consultancy, professional and technical services and fees of the individual;
c. the power to levy 10 per cent penalties on outstanding tax liability on an annual basis;

d. the need for companies under the Petroleum Profit Tax Act, 1959 to pay their outstanding tax liabilities one month after the decision of the high courts; and

e. tax exemption on gratuities paid in the private sector.

There were also incentives for capital imported for business in Nigeria and for research and development made by companies and individuals.

In 1987, the federal government also issued the National Economic Emergency Power (surcharge on after tax profit, dividend and rent) Order. The Order confirmed that the National Economic Recovery Fund (NERF) deductions were to be limited to the after-tax profits of the accounts and returns ended on any day in the year 1984 and forming the basis period for 1985 assessment year, the dividends payable out of the profits of the accounts of the year ended on any day in the year 1985 and the rent payable for the year 1986.

Another development within this period was the completion of the avoidance of double taxation agreement with Pakistan, Philippines, Sweden, Belgium and Czechoslovakia. A similar agreement between Nigeria and United Kingdom was signed in 1987 by the representatives of the two countries.

Beginning from the 1987 tax year, a company or an individual deriving income from any company was to enjoy tax free dividend for a period of three years if: the company paying the dividend was incorporated in Nigeria and if engaged in agriculture and petrochemical or Liquified Natural Gas (LNG; five years); the recipients equity participation in the company constitutes at least 10 percent of the share capital of the company; and the equity participation is imported into the country between 1st January 1987 and 31st December, 1992.

The Beginning of Modern Reforms in the Nigerian Tax System

In 1991, the federal government set up a Study Group of eminent Nigerians headed by Prof. Emmanuel Edozien to review the entire tax system and its administration. The outcome of the Study Group led to the promulgation of the *Finance (Miscellaneous Taxation Provisions) (Amendment) Decree No. 3 of 1993*. The decree recognized the continuing existence of the Federal Board of Inland Revenue and reconstituted the Board by expanding the number of members of the Board to fifteen inclusive of the Board Secretary. The Group, which set out to overhaul the entire system of tax administration came up with the following recommendations:

a. The setting up by law at federal, state and local levels, Federal Inland Revenue Service, States' Internal Revenue Service, and Local Government Revenue Committees respectively;
b. Each Service should have a board which would be its governing body;
c. The Federal Inland Revenue Service should be the operational arm of the Federal Board of Inland Revenue.

The Government in its White Paper accepted the recommendations. The composition, functions and scope of the new board were expanded to cope with modern development and ensure uniformity throughout the country. The Study Group further recommended in paragraph 31 of the White Paper that the Board should be responsible for:

a. Ensuring the effectiveness and optimum collection of all taxes and penalties due to the service under the relevant laws;
b. Making recommendations, where appropriate to the minister or commissioner, as the case may be, on tax policy, tax reform, tax legislation, tax treaties and exemption as may be required from time to time.
c. Ensuring that all amounts collected by the Service are accounted for and paid into government coffers;
d. Generally controlling the management of the Service on matters of policy, subject to the provision of the law setting up the service; and
e. Appointing, promoting, and disciplining employees of the Service.

The new Board was inaugurated on Wednesday 7th April, 1993 by the Honourable Secretary of Finance, Prince Oladele Olashore at the Conference Room of the Federal Ministry of Finance, Abuja. The decree provided for the composition of the Board as follows:

i. an Executive Chairman, who shall be a person within the Service experienced in taxation to be appointed by the President;
ii. the Directors and Heads of Departments of the Service;
iii. the officer from time to time holding or acting in the post of Director with responsibility for planning, research and statistics matters in the Federal Ministry of Finance;
iv. A member of the Board of the Revenue Mobilization Allocation and Fiscal Commission;

v. A member from the Nigeria National Petroleum Corporation not lower in rank than an Executive Director;
vi. A Director from the National Planning Commission;
vii. A Director from the Nigerian Customs Service;
viii. The Registrar-General of the Corporate Affairs Commission; and
ix. The Legal Adviser of the Service.

In spite of the reforms introduced by decree No. 3 of 1993, tax administration still remained a function of the civil service and the Chairman of the Federal Inland Revenue Service was one of the Directors of the Federal Ministry of Finance.[165] The first non-career civil servant to assume the office of Chairman of the Board was Mallam Balama Manu, a private sector banker who assumed office on the 3rd of September, 2001.

Between 2002 and 2005, several initiatives and efforts were made to elevate and update the country's tax system and administration and put it at par with global best practices. There were inputs from several stakeholders including the Presidency, the Federal Executive Council, the National Economic Council, the National Assembly, the Ministry of Finance and Economic Planning as well as the Joint Tax Board. Others were the International Monetary Fund (IMF) and the civil society. In August 2002, the Finance Minister Mallam Adamu Ciroma inaugurated another Study Group headed by Professor Dotun Phillips with terms of reference to:

a. review all aspects of the Nigerian tax system and recommend improvement therein;
b. review all tax legislation in Nigeria and recommend amendments where necessary;
c. review all amendments and collection procedures, including payment procedures, objection and appeal procedure and court proceedings and recommend appropriate improvements;
d. review the entire tax administration and recommend improvements in the structure for the whole country as well as the administrative structures at the federal, states and local government levels, with a view to enhancing performance and efficiency;
e. consider and recommend the possibility of the grant of operational and financial autonomy to the revenue authorities;
f. review and recommend the jurisdiction and scope of tax authorities at the federal, state and local government levels;

g. examine and recommend the mode of financing revenue authorities to reflect constitutional provisions;
h. assess the extent of implementation and the impact of the recommendations of the 1991 Study Group;
i. consider international developments in taxation and recommend suitable adaptation to Nigerian circumstances;
j. evaluate and confirm the desirability or otherwise of the retention of the portfolio of fiscal incentives enshrined in the tax laws; and
k. consider and recommend new taxes where necessary, with a view to significantly improving the overall tax system.[166]

In order to make the study easy and detailed, the Study Group was divided into eight sub-committees. The sub-committees were on National Tax Policy, Tax Incentives and Disincentives, Local Government, Oil and Gas Taxation, Taxation and Federalism, Indirect Taxation, Direct Taxation and Tax Administration. The Study Group submitted its report to the Federal Government in July 2003. On 12 January 2004, the new Finance Minister Dr. Ngozi Okonjo-Iweala inaugurated a private sector led Working Group headed by Seyi Bickersteth. The Working Group's terms of reference were to:

a. critically evaluate the recommendations of the Study Group;
b. prioritise the strategies necessary to give effect to the reform of the Nigerian tax system; and
c. segment the strategies into short term, medium term and long term.

At a retreat held between 10 and 11 February 2004, the Working Group prepared its final report and submitted it to the Federal Government. At a Federal Executive Council meeting held on October 18, 2004, the new Executive Chairman of the FIRS outlined the reform agenda necessary to reposition the Nigerian tax system. The reform agenda was distilled mainly from the recommendations of both the Study and the Working Groups with inputs from other stakeholders such as the IMF Mission on Tax Administration, the Federal Ministry of Finance, and the Economic Management Team. The unanimous opinion among all stakeholders was that tax reforms should aim at diversifying the Nigerian economy. The highlights of the presentation to the FEC by the Executive Chairman were as follows:[167]

a. Tax incentives should be streamlined and exceptions made only for the oil sector, industries located and operating in the rural areas and export-oriented industries.

b. The tax administration system should be reformed by adopting the following measures:
   i. Making the Federal Inland Revenue Service autonomous with respect to funding, procurement, recruitment and remuneration;
   ii. Reviewing the organizational structure of the FIRS and ensuring the computerisation of its operations;
   iii. Reduction of tax evasion by naming and shaming recalcitrant and defaulting taxpayers;
   iv. The establishment of a tax or revenue division of the Federal High Court to enable specialization by High Court judges as well as quick disposal of disputes;
   v. The discontinuation of the use of tax consultants for revenue collection by governments at all levels; and
   vi. Harmonising tax procedure codes and the creation of a tax friendly environment.

c. The informal sector must be encouraged to pay taxes, especially personal income tax, and adequate mechanisms provided for sanctions against infringement of statutory requirements such as the failure to disclose income or gains of a person by a bank and forgery of Tax Clearance Certificate.

d. The four year limitation relating to the ability of companies to claim past losses from future profits and carry forward all capital allowances should be expunged from the law. Furthermore, investment tax credit should be replaced with investment allowance and penalties for late filing of returns should be increased.

e. The Education Development Fund be renamed the Education Trust Fund which would be funded through yearly votes and several other sources; Value Added Tax should be included in the Exclusive Legislative List of the Nigerian Constitution; and the VAT Act be amended and an administrative appeals procedure for objections to VAT assessments and refunds be instituted.

f. A five percent cost of collection should be approved for the Service for its operations; another five percent of collection for tax refunds while a 10 percent cost of collection should be approved for the Nigerian Custom Service. (The Study Group and the Working Group had, respectively, recommended three percent and 10 percent cost of collection for the Service.[168]

g. Additional incentives should no longer be given to operators of marginal fields in the area of oil and gas sector.

h. The FIRS would work in conjunction with the FCT administration to develop the tax administration structure of the territory.

i. The incentives proposed in regard to export processing zones (EPZs) were awaiting the approval of the National Assembly, as well as tax incentives relating to payment of tax on profit and the exemption of payment of VAT on machinery and goods imported by companies operating in EPZs.

Of particular importance on the reform agenda was the need to reposition the Service to deliver on its mandate. The repositioning required improving the work environments of FIRS personnel, overhauling unserviceable equipments, machineries and vehicles, providing adequate working materials and building capacities of employees of the Service. Furthermore, the primary objectives of the reform initiative with respect to the FIRS as an organisation include:

a. Streamlining the mission, values, goals and organisational structure of the FIRS;
b. Plugging the leakages in the Service attributable especially to corruption in the system;
c. Securing adequate funding for the Service;
d. Operational autonomy coupled with capacity building and the building of the FIRS institution though adequate staff selection, training and deployment;
e. Expansion of the tax net in Nigeria through the introduction of more services;
f. Strengthening the newly created Investigation and Enforcement Department;
g. Invigorating the taxpayer education and services arm of the Service;
h. Automation of the entire collection and general tax administration system; and
i. The stoppage of exemptions and waivers.

The FEC largely approved the proposals and objectives of the reforms, particularly the funding of the FIRS through a percentage of revenue collected. It also approved administrative and financial autonomy for the FIRS. The FEC meeting concluded with the constitution of a Presidential Technical Committee to fashion the statutory enactments necessary to implement the proposed tax reforms. The committee comprised of the Attorney General of the Federation and Minister of Justice as the chairman. The Ministers of Finance and Aviation, the Federal Capital Territory, the Chairman of the FIRS, the Economic Adviser to the President, the Accountant-General of the Federation, the Group Managing Director of the Nigerian National Petroleum Corporation, the Director-General of the Budget Office, State House Counsel and former Chairman of the FIRS, Ballama Manu were appointed members of the committee. The Committee further divided itself into subcommittees to address sub-themes. The sub-committees included the National Tax Policy and Legal Sub-Committees. While the former worked on the background to the National Tax Policy document, the latter drafted the bills necessary to give effect to the reforms. The efforts of Presidential Technical Committee resulted in the formulation of the National Tax Policy and the nine tax bills sent by President Obasanjo to the National Assembly in November 2005, seven of which have been passed into law between 2007 and 2011. These were:

a. the Federal Inland Revenue Service (Establishment) Bill;
b. the Companies Income Tax (Amendment) Bill;
c. the Petroleum Profits Tax (Amendment) Bill;
d. the Personal Income Tax (Amendment) Bill;
e. the Value Added Tax (Amendment) Bill;
f. the Tertiary Education Trust Fund (Establishment; etc.) Bill;
g. the National Automotive Council Tax (Amendment) Bill;
h. the Customs and Excise Tariff Consolidation (Amendment) Bill; and
i. the National Sugar Development Council Act

The laws, especially the Federal Inland Revenue Service (Establishment) Law set the stage for the institutional reforms that are ongoing within the Federal Inland Revenue Service.[169] On April 16, 2007, four of the proposed bills were signed into law by President Olusegun Obasanjo. These were: the Federal Inland Revenue Service (Establishment) Act, 2007, Companies Income Tax (Amendment) Act 2007, National Automotive Tax Act Council (Amendment) Act, 2007 and the Value Added Tax (Amendment) Act (VATA) 2007.

In 2007, the Federal Inland Revenue Service recommended an increased rate of 7.5 for VAT. The reason given for the recommendation was to shore up non-oil revenue and, in the light of regional economic integration, ensure that Nigeria's tax policy is consistent with other countries in the region whose VAT rate is far higher than the current 5 percent. The Service also recommended a downward review of corporate and personal income taxes as a demonstration of government's appreciation of the economic conditions of Nigerians.[170] The VAT rate was increased by a ministerial directive to 10% effective from 23rd May 2007.[171] The increase generated controversy as to whether the Minister's power under Section 38 to amend the rate of VAT being a delegated power, could be exercised to override the provisions of a principal legislation, namely Section 4 of the VAT Act which put the rate of VAT at 5%. Pressure from members of the public and the organized private sector compelled the government to reverse the purported increase.

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